

BUDGET LETTER

NUMBER: 98-07

SUBJECT: 1998 STRATEGIC PLANNING REQUIREMENTS

DATE ISSUED: MAY 6, 1998

REFERENCES: Government Code Chapter 779, Statutes of 1994;
Budget Letters 96-16, and 97-07; Management Memo
96-23, Executive Order W-151-97

SUPERSEDES: BL 96-16

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Strategic Planning

Strategic planning is critical to the continuing success of the effort to make state government programs and operations more efficient and effective. The strategic planning process produces fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. It is an inherent function of management that is funded from existing resources. Those state agencies that have seriously engaged in strategic planning have demonstrated that this process fosters better organization management and promotes better service delivery to their customers. A key by-product of this planning is the strategic plan; a blueprint for future programmatic direction.

Strategic Plan Link to the Budget

A strategic plan contains a state agency's overall plan for accomplishing its mission in a changing environment with the resources it can reasonably expect to be available. It should provide an overall guide to the formulation of the state agency's future budget requests. The strategic plan is the tool in setting priorities and providing guidance for budgetary allocation of resources. Although a strategic plan is not a budget document, the projected levels of goal and objective achievement should be commensurate with anticipated resource levels.

Budget adjustments requested in the preparation of the fiscal year 1999-2000 budget must be linked to the strategic plan. Resource requests must also be logically related in the strategic plan. All 1999-2000 budget change proposals for augmentations, including those for capital outlay, will be considered for approval **only** when a state agency has an approved strategic plan, the proposal is consistent with that plan, and the plan includes objectives for the requested fiscal year. Budget proposals must include narrative describing how the proposal contributes to achieving any relevant, specific objectives or goals in the approved plan.

Workforce Development

Executive Order W-151-97, issued March 31, 1997, stipulates that models for integrating workforce development programs into organizational strategic plans shall be defined. Consistent with that order, strategic plans shall address human resources elements where appropriate, beginning with those plans submitted for approval after the issue date of this Budget Letter.

State agency strategic plans, in addressing human resources planning needs, may include one or more human resources topics such as: 1) changes in work design and/or organization; 2) recruitment and planned demographic changes; 3) changes in classification and pay, etc.; or 4) employee development, education and training.

Human resource issues can be addressed through a variety of means consistent with your state agency's planning model and at the appropriate level of the plan. For example, workforce development initiatives, such as training, may be encompassed within a strategic direction set forth by the state agency, or may be identified and tracked through a specific performance measure. Under performance budget models, outcomes should be identified and measured.

All state agencies should keep their DOF budget analyst and Department of Personnel Administration (DPA) classification analyst informed of their strategic planning and human resource/workforce development planning efforts.

The DPA will issue additional guidance to assist state agencies in bringing human resource and workforce development elements into the strategic planning process.

Approval of 1998 Strategic Planning Information

By July 1, 1998, each state agency is required to submit strategic planning information to the Governor's Office for approval. Submittal of this information may take one of two forms: (1) a letter from the department director attesting to no changes to the previously approved strategic plan, or (2) a revised strategic plan.

If the Governor's Office has approved your state agency's strategic plan, you do not need to submit a revised strategic plan **unless** there is 1) a change in any goal, or 2) a change in any objective, or 3) a proposed budget request that will not tie into the existing strategic plan.

A revised strategic plan must receive approval from the Governor's Office **before** it can replace a previously approved plan.

All state agencies that report to an Agency Secretary must obtain the Agency Secretary's approval of their 1998 submittal. The Agency Secretary will transmit the submitted plan to the Governor's Office for approval.

For state agencies that do not report to an Agency Secretary, the 1998 strategic plan submittal must have the department director's or executive officer's approval and be transmitted to the

appropriate DOF Program Budget Manager (PBM) for review. Transmittal by the PBM to the Governor's Office does not indicate any budgetary approval or approval of any budget change proposal. If you need to submit your plan through an Agency Secretary or DOF PBM, the plan must be submitted early enough to meet the July 1 deadline.

The Governor's Office will forward a copy of an approved 1998 strategic plan submittal to DOF. The DOF Office of State Audits and Evaluations will then ask the state agency to send another two copies of its approved 1998 submittal to them.

The approval by the Governor's Office does not apply to elected constitutional offices. However, state agencies headed by an elected constitutional office are subject to all other requirements of this budget letter, including having a strategic plan (approved by the elected constitutional officer) that is linked to the budget, as described above. Further, the provisions of this budget letter shall not apply to the judicial branch of state government, the University of California and the California State University system. However, these organizations are encouraged to develop strategic plans for use in preparing their budgets and to forward copies of their plans to the DOF.

Availability of Instructions for 1998 Submittal and Strategic Planning Guidelines

The instructions for the 1998 submittal are available via the Internet. In addition, the DOF will continue to provide, update, and distribute, via the Internet, *Strategic Planning Guidelines*, a strategic planning handbook containing guidelines on strategic planning processes and strategic plans. All modifications to *Strategic Planning Guidelines* will continue to be made only on the Internet version. Both the instructions and the guidelines are located at the DOF Website, <http://www.dof.ca.gov/FISA/osae/SPguide.pdf>. They may be downloaded for your use.

If you have any questions, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations at (916) 322-2985, Ext. 3102.



DIANE M. CUMMINS
Chief Deputy Director

Attachment

INSTRUCTIONS FOR 1998 SUBMITTAL OF STRATEGIC PLANNING INFORMATION

By July 1, 1998, each agency¹ is required to submit strategic planning information to the Governor's Office for approval. Submittal of this information may take one of two forms: (1) a letter from the department director attesting to no changes to the previously approved strategic plan, or (2) a revised strategic plan.

Agency Attestation Letters

The attestation letter must specify that there are no changes to the agency's previously approved strategic plan. For the purposes of this letter, 'no changes' means that there are no changes to the goals or objectives contained within the approved plan. The dated letter is to be signed by the head of the agency.

Agency Strategic Plans

This Budget Letter identifies a new requirement: each agency must revise its approved strategic plan if there is 1) a change in any goal, or 2) a change in any objective, or 3) a proposed budget request that will not tie into the existing plan. (All agencies are assumed to have a strategic plan, since Management Memo 96-23 requires that each agency develop a strategic plan by July 1, 1997.)

The agency strategic plan establishes and documents the future direction for the agency as a whole. The agency strategic plan reflects a "top-down" orientation that transcends the agency's program structure. Through the agency strategic plan, the director can articulate priorities for the entire agency over a minimum of the next three years.

The agency strategic plan is based upon identification of important issues that impact the agency. These strategic issues are clarified during the process of conducting the agency's internal/external assessment. Strategic issues may be a combination of many different operational or programmatic concerns.

For example. Issues affecting multiple programs, system-wide operational issues (e.g., information systems, or personnel management), agency public relations/customer concerns, or resource issues.

Agency strategic issues can also result from statewide policy issues that have been identified through Executive or Legislative initiatives. In addition, strategic issues may be cross-functional and involve other agencies or organizations.

Although an agency may choose to have a strategic planning process addressing all future actions, only the key future action items are to be documented in the strategic plan that is sent to the Governor's Office. Typically, the director and executive management team should and will select only a few strategic issues to address in the strategic plan which is to be approved by the Governor's Office. In this way, they remain focused on the most important concerns. Goals,

¹ The term "agency" is used to refer to a State Agency, department, board, commission, or office.

objectives, performance measures, and action plans are then developed in response to the agency's strategic issues.

General Guidelines for Agency Strategic Plan Submissions

While agencies have considerable latitude in preparing their plans, they are requested to arrange their information according to a standard table of contents. This will maintain a degree of continuity between different agency documents and ensure compliance with the minimum requirements. The suggested Table of Contents for the plan is shown below. Components recommended, but not required, are so noted. The Table of Contents is revised for the 1998 submittals.

Strategic Plan Survey and Reporting to the Legislature

Government Code Title 2, Division 3, Part 1, Chapter 8.1 (commencing with Section 11810) sets forth the State Government Strategic Planning and Performance Review Act. Among other things, it requires the Department of Finance (DOF) to 1) conduct surveys to determine the status of strategic plans, 2) identify agencies for which DOF recommends the development or updating of a strategic plan, and 3) develop a plan for conducting performance reviews of all agencies.

The 1998 survey forms were sent to agencies for which the DOF Office of State Audits and Evaluations had no record of a current approved strategic plan.

Beginning with the issuance of Budget Letter 96-16, the Department of Finance, pursuant to Government Code Section 11815, continues to require all agencies to develop or update a strategic plan.

If an agency does not have an approved strategic plan, a requirement is placed on it by the Legislature and described in Government Code Section 11816. By April 1 of each year, that agency is required to annually submit to the Governor and to the Joint Legislative Budget Committee the report described in Section 11816. This report is in addition to the requirements included in any Budget Letter or Management Memo.

Scope of the Strategic Plan

The plan should be oriented toward the vital few strategic goals that reflect key future direction for the organization as a whole. This documentation of the agency strategic planning process is not intended to be a recompilation of every program and subprogram goal or objective.

An agency should consider the prospective readership of its strategic plan when determining length, style, and understandability. The presentation and effort should be commensurate with the size and complexity of the agency.

Brevity and conciseness will likely characterize plans that are useful and widely read. One way to achieve this is to keep the number of goals to a manageable level.

Strategic Plan Format

What is the format of a Strategic Plan? There is no prescribed detailed standard format. Except for the guidelines below, each agency may determine the format and content of the documentation of its strategic plan. The documentation must satisfy agency management requirements and be sufficiently detailed to provide the Governor's Office, the Agency Secretary (as appropriate), the DOF, and other stakeholders with a clear understanding of the agency's strategies. It is the responsibility of the agency to ensure that the information available to the Governor's Office, the Agency Secretary (as appropriate), and the DOF represents its current strategy.

Agency Strategic Plans Table of Contents

Executive Summary
Table of Contents
Mission Statement
Description
Principles
Internal/External Assessment Summary
Vision
Goals
Objectives
Performance Measures
Resource Assumptions

Appendix Items (required)

Methodology Statement

Appendix Items (recommended)

Action Plans [*]
Organizational Chart [*]
Plan for Monitoring and Tracking Performance[*]
Agency Program Hierarchy [*]
Other Information [*]

* recommended components but not required

Agency Strategic Plan Components

Each component in the strategic plan table of contents is summarized below. (The "*Strategic Planning Guidelines*" handbook, available on the Internet through the index of the Department of Finance home page, < <http://www.dof.ca.gov/html/general/index.htm> >, contains more information about the components.)

- *Executive Summary.* This should encapsulate:
 - (1) what the agency hopes to achieve with this plan;

- (2) a brief description of the plan's context; its purpose and scope (i.e., what it is intended to do), its relationship to other state plans and state planning goals, its relationship to the state budget, and when it will be revised;
- (3) the key elements of this strategic plan; and
- (4) the name and the phone number of the agency's contact persons who will respond to
 - (a) questions about the plan, and
 - (b) requests for copies of the plan.

- *Table of Contents.* The Table of Contents given above is the basic table for 1998.
- *Agency Mission Statement* -- the reason for the agency's existence.
- *Agency Description* -- a summary of the agency's major duties, responsibilities and customers served. This information will provide the reader with more background information about the agency. If the agency intends to widely distribute the plan, this additional information becomes more valuable.
- *Agency Principles* -- the agency's core principles.
- *Agency Internal/External Assessment Summary* -- an evaluation of key factors which influence the success of the agency in achieving its mission and goals. At a minimum, the agency should provide a brief summary of the key external opportunities and threats, as well as strategic issues, that have been identified during the internal/external assessment. (Internal strengths and weaknesses, while identified during the assessment, do not need to be reported.) Agencies may also choose to include tables, charts, and graphs to illustrate information that supports the internal/external assessment. Graphics can be incorporated in the text, or provided in the Appendix. In their sections on Internal/External Assessment, agencies may also want to summarize their general planning assumptions. However, resource assumptions are to be addressed separately, as discussed below.
- *Agency Vision* -- the agency's image of the desired future.
- *Agency Goals* -- the desired end result, generally after three or more years. Agency goals should reflect the most important strategic issues for the organization as a whole; they should not represent a comprehensive inventory of every program activity. Generally, since the goals in this document only represent key goals, five or fewer strategic goals will be sufficient for most agencies.
- *Agency Objectives* -- clear targets for specific action to fulfill the agency's strategic goals. An agency may have multiple objectives under a single goal; however, at a minimum, each stated goal must have at least one objective for each of the following three fiscal years: 1998-99, 1999-2000, and 2000-01.

(Budget requests must provide the cross-reference to the specific objectives in an organization's strategic plan. Therefore, the cross-reference should not appear in the strategic plan. The strategic plan is not a wish list of budget requests.)

- *Agency Performance Measures* -- the quantified results to be achieved. Performance measures provide a basis for assessing successful achievement of the agency mission, vision, goals and objectives by focusing on attainment of the objectives. However, in order to retain focus on only the most significant, the vital few, the agency should limit the number of measures by selecting only the most pertinent measures for each objective for which data can be collected. (More than three or four measures will probably be too many.) At a minimum, there should be at least one **key** performance measure under each objective.

When considered in the aggregate, agencies should strive for a balance of measures in their strategic plans, with an emphasis on outcome, efficiency, and quality measures. The use of simple input and output measures is not encouraged.

At a minimum, actual and projected performance data, for the 1998 submittal, should be shown for the following fiscal years:

FY 1995-96 actual
FY 1996-97 actual
FY 1997-98 estimated (target)
FY 1998-99 expected (target)
FY 1999-2000 expected (budget year target)
FY 2000-01 expected (target)

Two actual years show the established base level.

The current year is shown (FY 1997-98).

The next three years show the agency objectives in the strategic plan.

- *Resource Assumptions* -- assumptions about resources required to implement the agency strategic plan. In this section, an agency should indicate whether they can accomplish the agency goals, annual objectives and performance targets within their existing budget or with reduced resources, or if additional resources must be requested. Keeping in mind that the strategic plan is not a budget document, **the intent of this section on Resource Assumptions is to provide brief statements that strengthen the link between the plan and the budget.** Resource assumptions for both appropriated and non-appropriated funds should be noted.

For fiscal year 1997-98 estimates, agencies should develop their goals, objectives and performance targets based on their fiscal year 1997-98 appropriation and other expected funds. A general statement to this effect should be included in the Resource Assumption section. Any exceptions are to be explained, and the

affected goal, objective or performance target designated by an appropriate footnote.

Agencies should also describe their resource assumptions for fiscal year 1998-99 and subsequent fiscal years. If they can accomplish their agency goals, objectives and performance targets within their current base budget, they should add a general statement to indicate that no new resources are being sought to support the agency strategic plan. Agencies may find it helpful to explain that they intend to achieve their planned results in fiscal year 1998-99, and subsequent specifically identified fiscal years, by other means such as by improving a process or reallocating existing resources.

Appendix Items

A. Required:

- *Methodology Statement* -- a brief description of the internal planning process used and the participants involved in the development of the strategic plan. It should address the stakeholder involvement to date in building the plan's (a) vision, (b) goals, and (c) objectives. It can include a brief description of how the plan was put together: identification of participants, in what kinds of forums, and a list of references and/or organizations involved in the development of the plan. It can include a description of the method by which planning actions are prioritized.

B. Optional, and provided at the agency's discretion:

- *Agency Action Plans* -- the methods or strategies used to accomplish objectives and the summary of the detailed descriptions of how strategies will be implemented on an operational basis.
- *Agency Organization Chart* -- the current Organization Chart which displays the division and subdivisions within the agency and lines of authority. For large agencies, a summary chart will suffice.
- *Agency Program Structure* -- the current list of programs and subprograms within the agency. Alternatively, a diagram illustrating the program hierarchy can be provided.
- *Plan for Monitoring and Tracking Performance* -- a description of the methods the agency is using to determine if the strategic plan is being accomplished. Emphasis should be placed on describing how progress to achieve the objective is currently being monitored by using performance measures, as well as describing the projected plan for each of the other future fiscal years. The description should evaluate the results of past actions implemented.

For example. The agency may note that it developed an action plan which it monitors monthly, while it compares actual performance data with planned targets on a quarterly basis.

Agencies may wish to indicate that they also plan to summarize overall progress in achieving the agency strategic plan in their annual report.

- *Other Information* -- Additional information to augment the agency's strategic plan. This can include technical studies which may assist readers in understanding the plan, and/or a glossary of technical terms used in the text.

Strategic Plan Approval

All revised strategic plans must be approved by the Governor's Office. All state agencies that report to an Agency Secretary must obtain the Agency Secretary's approval of the department's strategic plan. After the Agency Secretary approves the plan, the Agency Secretary will transmit the plan to the Governor's Office (addressed to the appropriate deputy cabinet secretary) for Governor's Office approval.

For state agencies that do not report to an Agency Secretary, the strategic plan must have the department director's or executive officer's approval and be transmitted to the appropriate Program Budget Manager (PBM) in the Department of Finance for review. After the PBM reviews the plan, it will be transmitted to the Governor's Office for approval. Transmittal by the PBM does not indicate any budgetary approval or approval of any budget change proposal relating to the plan.

The Governor's Office will forward a copy of an approved plan to the Department of Finance. The state agency will then be asked to send another two copies of its strategic plan, as approved, to the DOF Office of State Audits and Evaluations. The requirement of approval by the Governor's Office shall not apply to elected constitutional offices. However, agencies headed by a elected constitutional office are subject to all other requirements of the budget process, including having a plan, approved by the elected constitutional office, that is linked to the budget.

These requirements shall not apply to the judicial branch of state government, the University of California and the California State University system. However, these organizations are encouraged to develop strategic plans for use in preparing their budgets and to forward copies of their plans to the Department of Finance.